

AR30

annual report 1975

brenda

BRENDA MINES LTD.

noranda group

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

[illegible]

OFFICERS

[illegible]

MINE OFFICE: P.O. Box 420, Peachland, B.C.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., Suite 2100, One Bentall Centre,
505 Burrard Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
20 Eglinton Avenue W., Toronto, Ontario.

ANNUAL MEETING: May 6, 1976, 11:30 a.m., Hotel Vancouver, Vancouver, B.C.

The reduction in profits is due to lower L.M.E. copper prices, increased operating costs and higher transportation and treatment charges. Financial results were disappointing in the second quarter as a loss of \$89,000 or 2¢ per share was incurred after providing \$775,000 for taxes and royalties.

August 6, 1975.

File *Jim*

BRENDA MINES LTD.

Mine and Registered Offices: Peachland, B.C.

Interim Report to the Shareholders
Six Months Ended June 30, 1975

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FINANCIAL SUMMARY

Six Months Ended June 30, 1975
(Unaudited)

	1975	1974
	(in thousands)	
OPERATIONS		
Value of concentrates produced	\$ 16,493	\$ 23,806
Operating costs	10,676	8,369
Interest on long-term debt	435	1,414
Depreciation and depletion	2,130	1,991
Provided for taxes and royalties	2,460	3,950
	<u>15,701</u>	<u>15,724</u>
Net earnings	\$ 792	\$ 8,082
Earnings per share	<u>\$ 0.18</u>	<u>\$ 1.89</u>
CHANGES IN FINANCIAL POSITION		
Working capital, beginning of year	\$ 8,361	\$ 19,105
Source		
Operations		
— Net earnings	792	8,082
— Depreciation and depletion	2,130	1,991
— Amortization of financial expenses	223	664
— Taxes provided not currently payable	1,600	540
Miscellaneous	15	23
	<u>4,760</u>	<u>11,300</u>
Application		
Fixed assets	438	655
Reduction in long-term debt		19,800
Taxes reclassified as currently payable	375	
	<u>813</u>	<u>20,455</u>
Increase (Decrease) in working capital	3,947	(9,155)
Working capital, June 30	<u>\$ 12,308</u>	<u>\$ 9,950</u>

On behalf of the Board:

BERNARD O. BRYNELSEN, Director.

JOHN A. HALL, Director.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Taxes and Economic Conditions

As expected, the provision for income taxes, mining taxes and royalties had a serious adverse effect on earnings and accounted for 65% of pre-tax income. It is possible, however, that 1976 may see a favourable move away from the present punitive tax policies as federal and provincial governments recognize the symptoms of an atrophying mining industry.

In particular, the red metal, copper, has been hard hit by economic conditions and few Canadian producers can remain profitable at the present world price of 54¢ per pound. The major expansion of Canadian copper production in the past decade came from the development of low grade, open pit orebodies in British Columbia with reliance on Japan for smelting and refining facilities. Cash operating costs at the mines have increased some 40% since the oil embargo and the Japanese treatment charges have almost tripled. Major new mines under construction in Peru, Iran and the United States have encountered high capital cost. When one adds the factors of cash operating cost, debt service, capital amortization and taxes, these operations will need a price of over \$1.00 per pound to provide a minimum return on the total investment. Although there are ample undeveloped copper reserves in the Free World, the growth of the primary copper industry will be slow unless there are price improvements and a reasonable and stable tax structure to encourage the financing of new production. The time lag to new production is four to six years. Although the outlook for consumption is not bright for the first half of 1976, it is apparent demand will eventually outpace production and, as a consequence, inventories will drop and the world copper price will rise substantially.

The Federal government has introduced measures which will in some situations moderate the effective income tax rate. The British Columbia mining taxes and royalties so far remain unchanged. It is encouraging to review the pre-election undertaking of the new provincial government to eliminate royalties and it is urgent that the promises be put into legislation without delay.

Earnings

Net earnings for 1975 were \$2.0 million, or \$0.47 per share, compared with \$8.4 million, or \$1.96 per share in 1974. Operations produced 2.8 million pounds of copper and 0.8 million pounds of molybdenum more than last year. In spite of this strong production performance, net revenues were \$8.2 million lower due mainly to a 35% decline in the average price for copper, and higher smelting, refining and transportation costs. Molybdenum prices were up 16% over 1974.

Financial

New contracts arranged in the second half of the year for the treatment of copper concentrates carried less favourable payment terms, with the result that accounts receivable at the end of 1975 were much higher than 1974 balances. Temporary short term borrowing was arranged to meet cash operating requirements. The remaining \$2.5 million of Secured Income Bonds were retired during the year.

Costs

The increase of \$3.9 million in smelter and distribution costs reflects the termination of the Nippon-Mitsui copper concentrate contract and the very much higher charges that now prevail in shipping to any of the custom smelters. Rail freight rates increased 48% during the year and with an additional 15% effective January 1, 1976 brought the cumulative increase to 71% over one year plus a day. Cost of concentrate production was \$3.8 million or 21% higher than in 1974. Major areas of increase were salaries and wages (\$663,000), fringe benefits (\$168,000), grinding steel (\$899,000), liners and screens (\$385,000), explosives

(\$284,000), tires (\$110,000), reagents (\$266,000), conveyors (\$100,000), power (\$160,000), fuel and gas (\$233,000), administration (\$124,000).

Municipal and sundry taxes totalled \$819,000 consisting of property taxes \$682,000, some \$137,000 more than 1974, leases \$67,000, claims filing \$18,000, vehicle licenses \$13,000 and capital tax \$39,000.

Metal Markets

Demand for copper was sharply lower in 1975 while molybdenum was less affected due to its growing applications in steels for energy-related equipment and high capacity gas pipelines.

Copper consumption was 16% below 1974 and 20% below 1973 levels. Producer stocks rose 700,000 tons to 1,500,000 tons with especially large surpluses of metal and concentrate accumulated in Japan. London Metal Exchange prices declined progressively during the year reaching 51½¢ in December, while the Canadian price dropped to 62¾¢ for cathodes.

Molybdenum sales were 7.3 million pounds, production 8.5 million, and stocks 4.1 million at year end. Western World consumption declined 12% from the 180 million pounds in 1974 but should recover that rate in 1976. The price increased from \$2.43 per pound molybdenum contained to \$2.62 U.S. f.o.b. mine, for primary grade molybdenite concentrate. Mine production should be fully sold in 1976.

Operations

An early study stage concept was to design the Brenda operation for a daily production rate of 20,000 tons of ore and with considerable capital cost a later expansion to 30,000 tons. After considering various alternatives the process plant was designed for 24,000 tons per day and operations started slightly above this rate. The average daily milling rate has gradually risen over the years and for 1975 was 27,530 tons. Additional incremental tonnage is a vital factor in the profitability of the company. Brenda's management, staff and employees have all contributed to the improved milling rates through efficient operation, maintenance and high safety standards. This year, the efforts of Brenda's metallurgical and instrumentation personnel resulted in a technical improvement of importance not only to Brenda but potentially to the mining industry as a whole. This improvement involved the development of a flexible and practical computer control strategy for all four grinding lines which will provide a significant increase in production over that previously possible. The installation of the new instrumentation is nearly complete.

Acknowledgement

Mr. Gordon H. Montgomery accepted a new position as Vice-President and General Manager, Tara Mines Limited, but remains a director of Brenda. Mr. John B. Knapp, formerly Concentrator Superintendent, was appointed Mine Manager. Messrs. Montgomery and Knapp have been mainstays and the directors extend congratulations and appreciation for their great contribution to the Company.

The directors also wish to express their appreciation to the staff and employees for their efforts which resulted in a record annual production and recovery of metals.

On behalf of the Board,

John A. Hall

President.

Toronto, Ontario,
February 11, 1976.

MINE MANAGER'S REPORT

To the President and Directors:

Herewith follows my report on operations for the year ended December 31, 1975.

Operations		1975	1974
Waste stripped	— Tons	4,508,400	2,749,800
Low-grade ore stockpiled	— Tons	1,791,800	4,411,800
Ore milled	— Tons	10,048,545	9,549,588
Ore milled per calendar day	— Tons	27,530	26,163
Copper grade	— % Cu	0.188	0.186
Copper recovery	— %	87.90	85.88
Molybdenum grade	— % Mo	0.052	0.051
Molybdenum recovery	— %	80.54	78.48
Copper concentrate produced	— Tons	57,667	51,365
Copper concentrate grade	— % Cu	28.87	29.74
Molybdenum concentrate produced	— Tons	7,543	6,811
Molybdenum concentrate grade	— % Mo	56.07	56.10

Open Pit

Mining operations during 1975 removed a total of 16,348,745 tons from the pit. Included in this figure is a record 10,048,545 tons of ore delivered to the primary crusher. Major overhauls of the three production shovels were completed during the year, but the necessity of the program reduced the flexibility of operations and the total output from the mine. Consequently, mine productivity was lower at 793 tons per man shift, compared with 829 per man shift in 1974.

The pit slope stability study, instituted in 1974, was continued with the use of a geodimeter to monitor regularly all areas where rockslides are considered possible. Nothing of any major significance appears likely on the basis of present information.

Studies concluded during 1975 indicated that 10% haulage ramps are economically advantageous to the 8% ramps formerly in use, and will permit the mining of two additional levels in the pit bottom with a consequent increase in accessible ore reserves.

After milling 10,048,545 tons, ore reserves declined by 906,000 tons to 126,094,000 tons grading 0.176% copper and 0.047% molybdenum.

Concentrator

The concentrator operated at a record rate of 27,530 tons per calendar day due, in part, to experiments with computer control of the grinding circuits and the knowledge gained through use of the instrument. A control system has now been developed which will be expanded to all four grinding circuits by early 1976.

Concentrate grades remained at acceptable levels, and modest recovery improvements occurred for both metals. Production of copper and molybdenum were higher than in the previous year.

The initial 5-year contract for copper concentrate with Japanese smelters terminated in May. The final shipment of concentrate to Japan occurred in June, and subsequent production has been treated in North American smelters under less favourable terms.

All molybdenum concentrate produced during the year was leached to prime grade specifications and was readily marketable.

An agreement has been concluded with a South American mining company to use the Brenda leaching process under a royalty arrangement for their own production, and the plant is now in the design stage.

General

The reclamation program continued as in past years and considerable effort was expended near the fresh water reservoir which is now a public recreational area. A further 22 acres were contoured and seeded and additional areas were reinforced. An experimental test plot prepared on a waste dump in 1974 was unsuccessful and further experiments will be necessary.

A new two-year collective agreement was signed in early September with Local 7618, United Steelworkers of America, and it extends to September 11, 1977. Wages increased approximately 20%, with additional increases scheduled for September 1976 and April 1977 which will fall within the Anti-Inflation Board guidelines.

The work force at December 31 consisted of 325 hourly-rated and 114 salaried employees. Wages, salaries and benefits paid to or on behalf of employees during 1975 totalled \$7,095,000, an increase of \$831,000 over the comparable figure for 1974.

I wish to acknowledge the guidance provided by the President and Directors during the year, and my sincere thanks are extended to the staff and all employees for their support and assistance. Their contributions throughout the year have been significant.

Respectively submitted,

Peachland, British Columbia,
February 10, 1976.

JOHN B. KNAPP,
Mine Manager.

Distribution of Revenue (Thousands of dollars)

	1970 (9 months)	1971	1972	1973	1974	1975
Revenue — net	\$ 23,635	\$ 27,875	\$ 27,067	\$ 40,958	\$ 41,006	\$ 32,757
Wages and benefits paid	3,692	4,259	4,657	4,599	6,264	7,095
Depreciation and depletion	2,564	3,525	3,667	3,678	4,040	3,983
Energy, supplies, services and other business costs	9,610	13,991	13,812	12,168	14,744	15,042
Preproduction expenditures	4,324	5,767	5,767	1,442		
Pre-tax earnings	3,445	333	(836)	19,071	15,958	6,637
Provided for payments to governments	725	670	684	2,336	7,563	4,619
Earnings (loss) after taxes	2,720	(337)*	(1,520)	16,735	8,395	2,018
Re-invested in the business	2,720	(337)	(1,520)	16,735	8,395	2,018
Dividends paid	—	—	—	—	—	—

Statistics

Tons milled (000's)	6,447	8,987	9,503	8,868	9,550	10,049
Number of employees	391	395	396	405	433	439
Gross capital employed (historical \$000's)	72,753	87,960	94,612	92,553	82,052	92,390

* Before extraordinary item — foreign exchange gain realized on conversion of long term debt — \$1,424,095.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1975 (With comparative figures for 1974)

	1975	1974
Gross value of concentrates produced	\$39,970,283	44,245,365
Less smelter and distribution charges	7,213,748	3,239,466
	<u>32,756,535</u>	<u>41,005,899</u>
Cost of concentrate production	20,471,354	16,775,501
Administration and general expenses	1,214,480	1,090,014
Municipal and sundry taxes	818,852	719,015
Depreciation and depletion (Note 1)	3,982,613	4,039,791
	<u>26,487,299</u>	<u>22,624,321</u>
Operating income	6,269,236	18,381,578
Interest:		
Long-term	126,886	985,781
Other	239,182	—
Financing expense written off	222,905	2,434,124
	<u>588,973</u>	<u>3,419,905</u>
Deduct other income	138,214	277,159
	<u>450,759</u>	<u>3,142,746</u>
Income before income and production taxes	5,818,477	15,238,832
Income and production taxes:		
Income taxes	2,300,000	4,953,852
British Columbia mining royalties	1,500,000	1,890,000
	<u>3,800,000</u>	<u>6,843,852</u>
Net earnings for the year	2,018,477	8,394,980
Retained earnings at beginning of year	27,411,661	19,016,681
Retained earnings at end of year	<u>\$29,430,138</u>	<u>27,411,661</u>
Earnings per share	<u>\$.47</u>	<u>1.96</u>

See accompanying notes to financial statements.

BRENDA MINES LTD.

BALANCE SHEET — December 31, 1975 (With comparative figures for 1974)

	1975	1974
Current assets:		
Short-term deposits	\$ —	440,000
Accounts receivable		
(\$7,850,561 due from affiliates, 1974 — \$372,827)	8,307,305	1,797,233
Inventories of concentrates and stores (Note 1)	14,473,453	10,043,651
Prepaid expenses	70,969	98,976
Total current assets	22,851,727	12,379,860
Property, buildings and equipment (Notes 1 and 2)	30,115,594	33,569,654
Other assets	395,000	867,905
	<u>\$53,362,321</u>	<u>46,817,419</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1975 and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia,
January 21, 1976.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current liabilities:		
Due to bank:		
Demand loan (Note 3)	\$ 2,700,000	—
Overdraft	1,103,136	532,506
Accounts payable (due to affiliates \$2,029,926, 1974 — \$815,414) ..	4,012,752	3,006,428
Taxes payable	1,822,343	480,000
Total current liabilities	9,638,231	4,018,934
Long-term debt	—	2,622,170
Taxes provided but not currently payable (Note 1)	6,075,954	4,546,656
Shareholders' equity:		
Capital stock:		
Authorized 5,000,000 shares without nominal or par value, issued 4,282,000 shares	8,217,998	8,217,998
Retained earnings, per accompanying statement (Note 5)	29,430,138	27,411,661
Total shareholders' equity	37,648,136	35,629,659
On behalf of the Board:		
BERNARD O. BRYNELSEN, Director		
JOHN A. HALL, Director		
	<u>\$53,362,321</u>	<u>46,817,419</u>

THE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975 (With comparative figures for 1974)

	1975	1974
Working capital at beginning of year	\$ 8,360,926	19,104,522
Source of funds:		
Operations:		
Net earnings for the year	2,018,477	8,394,980
Add items not involving funds during the year:		
Depreciation, depletion and amortization	4,205,518	6,473,915
Taxes provided but not currently payable	1,529,298	3,223,852
Other	166,782	16,326
Total from operations	7,920,075	18,109,073
Reduction in power and other deposits	250,000	220,000
	8,170,075	18,329,073
Application of funds:		
Purchase of fixed assets	695,335	1,770,993
Reduction in long-term debt	2,622,170	27,301,676
	3,317,505	29,072,669
Increase (decrease)	4,852,570	(10,743,596)
Working capital at end of year	<u>\$13,213,496</u>	<u>8,360,926</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. ACCOUNTING POLICIES:

Foreign currencies:

Current assets in foreign currency have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1975.

Inventories:

Copper and molybdenum concentrates are valued at estimated realizable value. Stores are valued at lower of cost or replacement cost.

Depreciation and depletion:

Depreciation of property, buildings and equipment is based on the estimated service lives of the assets calculated using the straight line method. Additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Mineral claims and leases are being depleted over fifteen years.

Taxes on income:

The company follows tax allocation procedures in recording charges for taxes on income. Taxes not currently payable, as a result of claiming for tax purposes amounts different from those recorded in the accounts (mainly depreciation), are charged against current earnings.

2. DETAILS OF PROPERTY, BUILDINGS AND EQUIPMENT, AT COST, ARE AS FOLLOWS:

	1975	1974
Buildings, equipment and related facilities	\$43,274,971	43,054,579
Mobile equipment	7,298,317	7,193,941
Residential land and buildings	305,714	215,714
	50,879,002	50,464,234
Less accumulated depreciation	20,976,536	17,130,770
	29,902,466	33,333,464
Mineral claims and leases, at cost less depletion	213,128	236,190
	<u>\$30,115,594</u>	<u>33,569,654</u>

3. BANK DEMAND LOAN:

This is secured by an assignment of accounts receivable and a charge on inventories.

4. ADMINISTRATION EXPENSE:

The aggregate direct remuneration paid to the directors and senior officers of the company, as defined by the B.C. Companies Act, amounted to \$146,813 (1974 — \$143,042).

5. ANTI-INFLATION LEGISLATION:

The company is subject to the Anti-inflation Legislation with respect to prices, compensation and dividends.

6. COMPARATIVE FIGURES:

Certain comparative figures for 1974 have been reclassified according to the presentation used for the 1975 financial statements.

